

Message Text

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ACTION EB-11

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C O N F I D E N T I A L BUENOS AIRES 6905

E.O. 11652: GDS

TAGS: ETEL, EINV, AR

SUBJ: ENTEL CONTRACTS WITH STANDARD ELECTRIC

REF: A. BA 9028; B. BA 4556

SUMMARY: SENATE ACTED SEP 5 TO CLEAR WAY FOR EXECUTIVE TO CANCEL CONTRACTS WITH FOREIGN OWNED FIRMS TO SUPPLY TELEPHONE SWITCHING EQUIPMENT. GOA PROBABLY THROUGH MIN OF ECON EXPECTED TO CLAIM SUBSTANTIAL COMPENSATION FROM COMPANIES FOR ALLEGED OVERCHARGING UNDER CONTRACTS. MANAGER OF LOCAL ITT SUBSIDIARY CONCERNED THAT MIN OF ECON GELBARD MAY BE MORE INTERESTED IN TAKING OVER CONTROL OF COMPANY THAN REACHING MUTUALLY ACCEPTABLE SETTLEMENT. END SUMMARY.

1. SENATE VOTED UNANIMOUSLY SEP 5 TO ANNUL 1969 DECREE APPROVING CONTRACTS BETWEEN ENTEL AND FOREIGN OWNED SUPPLIERS STANDARD ELECTRIC (ITT) AND SIEMENS. THIS COMPLETES LEGAL PROCEDURES ANNULING DECREE, SINCE CHAMBER OF DEPUTIES HAD ALREADY PASSED BILL (REF A), AND GIVES EXECUTIVE BRANCH FREE HAND TO CANCEL CONTRACTS AND ATTEMPT TO WORK OUT SETTLEMENT WITH COMPANIES. BILL PASSED BY CONGRESS IS BRIEF BUT HARSH. IT REFERS TO ORIGINAL DECREE AS "IMMORAL", APPLIES ANNULMENT RETROACTIVELY TO ORIGINAL DATE OF DECREE, AND DENIES TO COMPANIES ALL RIGHTS OR ACTIONS AGAINST GOVERNMENT ARISING FROM CONTRACTS.

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2. MIN OF ECON UNDERSTOOD TO HAVE NOW ON HAND PREPARED BUT UNSIGNED DECREES TO FORMALLY CANCEL CONTRACTS AND TO ESTABLISH SPECIAL COMMISSION TO DETERMINE AMOUNTS OWED BY COMPANIES AS RESULT OF ALLEGED OVERCHARGES. COMMITTEE WHICH WAS FORMED WITHIN MINISTRY IN JUNE ON RECEIPT OF INVESTIGATIVE REPORT FROM CHAMBER OF DEPUTIES (REF B). HAS ACCORDING TO INFORMATION OBTAINED BY STANDARD, RECOMMENDED THAT GOA ANNUL CONTRACTS, DETERMINE AMOUNT OF COMPENSATION DUE ENTEL, AND IF COMPANIES UNWILLING TO ACCEPT THIS DETERMINATION, TAKE OVER THEIR MANAGEMENT. MINISTRY'S COMMITTEE REPORTEDLY PLACED HIGH PRIORITY ON RENEWAL OF REGULAR DELIVERIES OF EQUIPMENT TO ENTEL TO MEET GOA'S DEVELOPMENT PLANS AND ALSO REFERRED TO NEED FOR GOA TO OBTAIN CONTROLLING INTEREST IN AT LEAST ONE MANUFACTURER OF TELEPHONE SWITCHING EQUIPMENT.

3. STANDARD ELECTRIC HAS PREPARED AND APPARENTLY DISTRIBUTED WITHIN GOA DETAILED REBUTTAL OF CALCULATIONS CONTAINED IN CHAMBER OF DEPUTIES REPORT, WHICH HAD FIXED ALLEGED OVERCHARGES BY STANDARD AT ABOUT 240 MILLION PESOS (US 24 MILLION). REBUTTAL BASED ON INTERNAL INCONSISTENCIES IN REPORT ITSELF AND STANDARD'S CONTENTION THAT REPORT'S TREATMENT OF NUMBER OF ITEMS IN COMPANY'S ACCOUNTS, SUCH AS INTEREST PAYMENTS, EXCHANGE RATES, AND INVENTORIES, IS INCORRECT. STANDARD CLAIMS IT CAN MAKE GOOD CASE THAT NO OVERCHARGES EXIST, BUT STILL APPEARS TO BE WILLING TO AGREE TO SOME MIDDLE GROUND. ENTEL STILL HEAVILY IN DEBT TO BOTH STANDARD AND SIEMENS FOR EQUIPMENT ALREADY DELIVERED. CURRENT DEBT OWED TO STANDARD ABOUT DOUBLE AMOUNT OF ALLEGED OVERCHARGES.

4. AS A RESULT OF RECENT DEVELOPMENT, GENERAL MANAGER OF STANDARD, RICARDO GABRIELLONI, NOW DECIDELY PESSIMISTIC ABOUT PROSPECTS FOR OBTAINING SATISFACTORY SETTLEMENT. HE EXPRESSED VIEW THAT MIN OF ECON'S REPORT MAY REFLECT DESIRE ON PART OF MIN GELBARD TO ACQUIRE PERSONAL FINANCIAL INTEREST IN STANDARD'S OPERATIONS. HE SAID FATE, A MAJOR MANUFACTURER OF AUTOMOTIVE TIRES AND ELECTRONIC CALCULATORS IN WHICH GELBARD HAS SUBSTANTIAL INTEREST, HAS ALREADY HIRED NUMBER OF EMPLOYEES FROM STANDARD. HE ALSO CITED PRESS REPORT THAT SECRETARY OF COMMUNICATIONS IN ECON MIN HAD GIVEN 230 MILLION PESOS AS OFFICIAL ESTIMATE OF COMPENSATION DUE GOVERNMENT

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FROM STANDARD, THE FIRST PUBLIC REFERENCE TO A SPECIFIC FIGURE.

5. STANDARD RECENTLY INITIATED CONTACTS WITH OFFICIALS IN PRESIDENCIA. GABRIELLONI HAD SHORT MEETING WITH PRESIDENCIAL ADVISER JOSE LOPEZ REGA AND LONGER MORE DETAILED DISCUSSION WITH SECRETARY OF PRESS AND BROADCASTING JOSE VILLONE ON MORNING OF SEP 5. WHILE HE WAS INITIALLY ENCOURAGED BY THESE MEETINGS, HE NOW

SPECULATING THAT THESE MEETINGS MAY HAVE PRECIPITATED
SENATE ACTION ON TELEPHONE CONTRACTS LATER SAME DAY, SINCE
ITEM WAS NOT ON AGENDA FOR THAT DAYS SESSION.

6. GABRIELLONI WAS TO MEET SEPARTELY ON SEP 12 WITH
OFFICIALS OF PRESIDENCIA AND WITH SECRETARY OF COMMUNICATIONS.
LATTER MEETING APPARENTLY WILL BE FIRST OFFICIAL CONTACT
STANDARD HAS HAD WITH MIN OF ECON REPRESENTATIVES. HE
PLANNED TO TRAVEL ABROAD SAME DAY TO INFORM SENIOR ITT
OFFICIALS WHO APPARENTLY UNWILLING TO COME TO ARGENTINA.
EMBASSY WILL ATTEMPT TO OBTAIN DETAILS OF SEP 12 MEETINGS
ON HIS RETURN NEXT WEEK.
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